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School District #35 (Langley)

Report to the Board of Education on Budget Preparation for 2008/2009

September 2009

September 8, 2009

Private and confidential

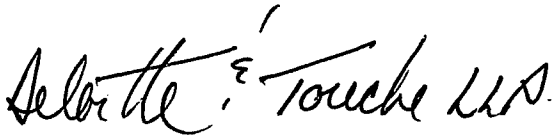
Cheryle Beaumont
Superintendent of Schools
School District #35 (Langley)
4875 - 222nd Street
Langley, B.C. V3A 3Z7

Dear Ms. Beaumont:

Please find attached our report on the results of our review of the Amended 2008/2009 Budget for School District #35 (Langley). Our report summarizes the results of our review, a description of the circumstances leading up to the projected deficit, and our recommendations.

We are available at any time to discuss our report with you and to respond to your questions.

Yours truly,

A handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in black ink and is positioned below the "Yours truly," text.

Chartered Accountants

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Background

Normal annual process

Each year School District #35 (Langley) ("the District") is required to report its Annual Budget for the year ended June 30 to the Ministry of Education (MOE) as required by the School Act. The Annual Budget is reported in June and an Amended Budget is reported in February.

Preparation of the Annual Budget involves a series of complex processes performed by the District's Finance Department. These include:

- Demographic and other data is analyzed to estimate the expected enrollment;
- Size and composition of classes are monitored to ensure that the School District is in compliance with guidelines prescribed by the School Act;
- Information on salaries, including terms of union contracts, the level of seniority and qualifications of each staff member, expected leaves and replacements, and numerous other details related to compensation and benefits are summarized and calculated.
- Considerable effort is made to understand the specific needs of each school.

The majority of funding is provided by the MOE and is based on enrolment. The funding formula is based on enrolment therefore at the start of the budget process it should be clear what planned enrolment is which in turn determines the number of required teachers. Approximately 85-90% of the District's budget is salary cost.

Funds are allocated to schools and the schools manage their own budgets (Decentralized Decision Model or DDM). The initial DDM allocation to schools is calculated based on expected enrolment and class composition information. The District meets with each Principal to review the information and the end result is that each school is given an operating budget for the year.

The Finance department of the District compiles the information on funding, school allocations and District costs in Excel in the form of an Annual Budget and records the information in its General Ledger. Platforms used include:

- Baragar system to calculate enrolment;
- Microsoft Excel to calculate average teacher salary;
- B.A.S. system to record the Budget data in the General Ledger ("the budget GL").

A summary binder is prepared with a reconciliation of each revenue and expense item in the Annual Budget.

Timeline for annual preparation and review:

Date	Activity
December through February	Annual Budget process undertaken by District Staff
February through June	Consultation and input by stakeholders at multiple opportunities Three readings on Annual Budget Bylaw passed in June
End of June	Annual Budget submitted to MOE
September through January	Annual Budget is updated based on actual enrolment and staff and other known non-salary cost changes
February	Amended Budget submitted to MOE

2008/2009 Issues

The District reported its Annual Budget for 2008/2009 to the MOE in June 2008.

The Amended Budget for 2008/2009 (the "2008/2009 Amended Budget") was reported to the MOE in February 2009. The 2008/2009 Amended Budget submitted in February 2009 projected that the District expected to be in a surplus position of approximately \$264,000.

Turnover and staff absences occurred in the Finance department at the time the Amended Budget was prepared. An Interim Assistant Secretary Treasurer (IAST) was hired on a contract basis to assist with the transition period based on his past experience with the District.

As the 2009/2010 Annual Budget was being finalized in late March 2009 the IAST brought various questions about the 2008/2009 Amended Budget to the attention of the Secretary Treasurer (ST) and Superintendent.

In late March 2009 the Superintendent notified the Board of Education that potential errors had been identified in the 2008/2009 Amended Budget. The Superintendent proposed to the Board that once the work of the IAST and ST was complete that an independent third party be contracted to review the results.

Prior to the end of the 2008/2009 school year and fiscal year the 2008/2009 Amended Budget was recalculated by the IAST and ST. The recalculation indicated that the District would likely be in a \$4-\$5 million deficit ("the projected final 2008/2009 budget").

The Superintendent recommended to the Board, and the Board agreed, that steps would be taken to reduce the deficit and adjust the budget forecast for 2009/2010.

Work performed by District Staff

An intensive internal review was completed by District staff between March 2009 and June 2009.

The differences between the 2008/2009 Amended Budget and the projected final 2008/2009 budget were summarized and tracked by budget line by the IAST and ST with assistance from various members of the Finance team. A significant amount of work was done by the IAST, ST, and several Managers to analyze each error and determine the impact on 2009/2010 Annual Budget preparations.

Each line in the 2009/2010 budget was recalculated and examined in detail by the ST and IAST to ensure each amount was accurate.

Actions were taken by District staff to mitigate the impacts of the errors for the remainder of 2008/2009 and for 2009/2010. These actions included limiting District central costs, and recovery of unspent budgets.

Since its internal review the Finance Department has begun to implement certain controls designed to prevent similar errors from recurring in the future.

Scope of Deloitte engagement

Scope of work

The terms of the engagement, as defined in our engagement letter with the School District dated May 18, 2009, were to review the Amended 2008/2009 Budget for School District #35 (Langley) and the circumstances leading up to the projected deficit, and to provide internal control recommendations designed to prevent similar issues from occurring in the future.

We did not perform an audit and our report is not an audit opinion.

We have not performed a review of the actual results for 2008/2009. The actual deficit for 2008/2009 will be reported in the District's annual audited financial statements and may be different from the budget deficit projected in this report.

The District staff provided us with a summary of the errors identified in the 2008/2009 Amended budget and a projected final 2008/2009 budget. We performed a review of the errors identified by the IAST and ST in the 2008/2009 budget process and supporting documentation, and a review of actions taken by Management to mitigate the impact of the errors on the 2008/2009 and future budgets.

Review procedures

The procedures we performed to determine whether the errors identified by District staff were appropriately calculated included:

- gaining a high level understanding of the budgeting process and systems in place through discussions with Management and review of operating budget binder;
- comparing amounts calculated to supporting documents;
- evaluating assumptions used by comparing data to supporting documents and corroborating information with appropriate staff;
- inquiring about the nature of the errors with management and staff;
- corroborating explanations; and
- recalculating the corrected amounts.

Summary of findings

Results of review

We did not discover any errors that had not been identified by District staff.

A detailed schedule of errors in and adjustments to the 2008/2009 Amended Budget including the amount, description, work we performed, and recommendation for each item has been included on pages 11-20 of this report.

The 2008/2009 Amended Budget

We reviewed the errors and adjustments identified by the IAST and ST in the 2008/2009 Amended Budget.

The differences between the 2008/2009 Amended Budget and the projected final 2008/2009 budget can be grouped into three general categories:

1) Process errors:

- Revenue and expense items recorded twice
- Operational changes not reflected
- Use of incorrect data for calculations
- Permission to spend without funding or authorization

2) Changes in estimates:

- Change in assumptions not reflected in the Amended Budget
- Unexpected items not reflected in the Amended Budget

3) Adjustments made by Management to mitigate the impacts of the errors:

- Reductions in unexpended budgets at the District level
- Reductions in District central cost budgets

Most of the significant errors involved spending authorization given (allocations to schools and departments) without approval or funding. The errors resulted from a breakdown in the system of internal controls over the budgeting process and not from Board-level decisions.

No instances of intentional misappropriation of funds were identified.

Effect on the 2009/2010 Annual Budget

A summary binder was prepared by the ST and District staff with a reconciliation of each revenue and expense item in the Annual Budget.

We discussed the approach to the 2009/2010 Annual Budget with the ST District staff and reviewed line items where errors had occurred in the 2008/2009 Amended Budget to ensure they were not repeated in the 2009/2010 Annual Budget.

Implications of errors

Several of the conditions that caused the errors appear to have been identified by members of the Finance Department but were not brought forward to the ST and Superintendent. If the processing errors had been detected earlier, operational decisions could have been made earlier to mitigate their impact.

The budget errors resulted in more funds than originally allotted and approved by senior staff being given to schools.

Additional Observations

Certain areas of the Finance department appear to be working well:

- Gathering of demographic data and estimating expected enrolment
- DDM – complex but staff performing well
- Heightened awareness of the importance of individual tasks and determination to accurately report the 2009/2010 Annual Budget, including full reconciliation of final projected 2008/2009 budget to 2009/2010 Annual Budget

We reviewed the 2007/2008 – 2008/2009 budget savings with respect to allocations to South Central District Schools and determined the following:

- Savings would have been higher if the Budget errors had not occurred.
- Calculation of savings is correct based on budgeted amounts.
- Real savings will ultimately be determined by actual results as reported in the Audited year end financial statements.

Management Cooperation

We received complete cooperation from District management and staff and had access to all documents and information necessary to carry out our review.

No restrictions were placed on our work.

Internal Control Observations and Recommendations

Oversight and Management review observations

Performance of budget vs. actual analysis would likely have identified certain shortfalls (such as salaries) and budget errors earlier.

Payroll and DDM reconciliations were appropriately completed and issues were identified by District staff but were not followed up and reflected in the 2008/2009 Amended Budget as submitted to the MOE.

Although the 2008/2009 Amended Budget was reviewed by various parties, there is no formal documentation of the internal reviews that occurred.

Process-level internal control observations

There are no procedures manuals or documentation to define internal control processes.

Various suspense accounts were used to record changes to the budget GL but were not monitored.

Although schools are provided a monthly budget to actual analysis, there is no verification that the budget amounts agree to the Amended Budget reported to the MOE, and no overall budget to actual analysis.

IT control observations

Controls over access to changes to the budget GL appear to be in place.

Budget software appears to have significant reporting limitations; for example the system is not able to generate a comprehensive budget report.

Management has compensated for system limitations by developing an electronic format for the Budget in Excel.

There is no internal IT support for Budget software which requires the District to outsource its support from the vendor.

Overview of recommendations

Detailed recommendations for internal controls to address each item have been included in the Schedule of errors and adjustments to the 2008/2009 Amended Budget on pages 11-20.

Our general recommendations are:

- Since payroll represents the majority of the District's costs, a comparison of actual salary cost compared with estimated should be performed in the month of November once the final staff composition has been determined to ensure that any changes in estimate are appropriately reflected in the Amended budget.
- Periodic review of actual results compared to budget should be performed in order to identify shortfalls or budget errors. As the timing of funding and expenditures are consistent from year to year a periodic comparison of budget to actual compared to previous years (using internal reports already being prepared) would provide an indicator if there were any significant issues.
- Improvements in documenting formal review and approvals will enforce accountability and provide evidence that the budget information has been reviewed and verified.
- An internal second review and approval of all budget GL entries would help prevent inappropriate entries from being recorded. Monitoring the use of suspense accounts would help to identify changes as they occur.
- The District should consider working with the vendor of its IT system to develop improved reporting functionality.

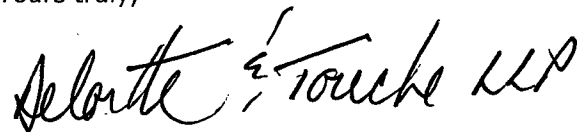
Conclusion

We have completed our review of the procedures used to prepare the District's 2008/2009 Amended Budget as well as the projected final 2008/2009 budget and have determined that management's calculation of the projected deficit is appropriate. The errors resulted from a breakdown in the system of internal controls over the budgeting process and not from Board-level decisions. We believe that District staff and management have taken appropriate steps to prevent similar errors from occurring in preparing the 2009/2010 and future Annual Budgets.

Our review may not necessarily identify all matters that will impact the budgets for these or future years.

We will be available to discuss this report and our recommendations with management of the School District at your convenience.

Yours truly,

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Chartered Accountants

Schedule of errors in and adjustments to the 2008/2009 Amended Budget

Amount		Item	Details	Work performed	Recommendation
Process errors					
\$1,292,001	Excess carry forwards	Surpluses, or "carry forwards" are calculated as the difference between the allotted budget and actual expenses. In the case of Schools, surpluses may be carried forward to be used in a future year. District programs are generally only permitted to carry forward surpluses related to targeted funding.	Agreed surplus available to audited financial statements; Agreed excess carry forward amounts to entries in various suspense accounts in the budget GL;	All entries posted to the budget to be reviewed and approved by a senior level manager. Monitor use of suspense accounts using system exception reports.	
		Some of the funds received in 2007/2008 that likely should have been deferred on the balance sheet to be carried forward and spent in 2008/2009 were not deferred in 2007/2008. As a result in 2008/2009, these amounts were no longer available and therefore amounts in excess of the surpluses available were recorded in the budget GL with no identified source of funding.	Reviewed the change in the deferred revenue accounts from 2007/2008 to 2008/2009.	Limit changes to the budget GL and all changes require approval. Summarize carry forward amounts included in the budget and agree to ending balance for prior year per audited financial statements.	
\$893,401	DDM allocation	Total funds distributed to schools through DDM were higher than had been budgeted by the District. Spending for schools was therefore provided and recorded in the budget GL without approval by senior staff at the District or any source of additional funding.	Compared original DDM allocation to final; Compared adjustment to DDM to the GL.	All entries posted to the budget to be reviewed and approved by a second manager. Monitor use of suspense accounts using system exception reports.	

Amount		Item		Details		Work performed		Recommendation	
\$724,920		DDM allocation - HD Stafford		See above. For HD Stafford, the calculation to estimate the DDM was incorrect as it included teacher costs for both budgeted prep time as calculated for elementary schools and exploratory time blocks as calculated for secondary schools.		Compared original DDM allocation to final allocation; Compared adjustment to DDM to the GL.		All entries posted to the budget to be reviewed and approved by a second manager. Monitor use of suspense accounts using system exception reports.	
\$728,000		ESL support and ISP Technology		Each international student pays tuition which was in previous years given to the schools to pay for their IT and ESL programs. In 2008/2009 the amounts transferred to the schools were reduced because the funds were now to be distributed directly to IT and ESL by the District. These programs were not set up in the budget as additional costs to be paid by the District. As a result, the funds to be set aside for spending which was occurring in the ESL & IT programs were spent elsewhere.		Recalculated the error; Agreed the number of students per DDM, discussed and corroborated explanations for differences; Agreed the amount allocated per student to the DDM allocation parameters.		Document all scheduled changes and ensure a manager reviews the final budget to ensure reflected correctly.	
\$350,200		Summer School		In prior years the District charged tuition for summer school programs for students. In 2008/2009 the District was not permitted to charge for the summer courses and as a result, the MOE agreed to fund the program. The 2008/2009 Amended Budget incorrectly included both tuition fees and MOE funding.		Agreed revenue to MOE grant; Scanned the remaining budgeted expenses to determine that they were not already included.		Maintain revenues reserved for a specific purpose on a specific line item of the budget and manager review to ensure properly reflected. Document all scheduled changes and ensure a manager reviews the final budget to ensure reflected correctly.	

Amount		Item	Details	Work performed	Recommendation
\$150,000	Later to Literacy	Refugee students were accepted into the school system in 2008/2009. They required specialized attention and therefore the District was required to hire additional full time staff and provide funding to facilitate the program. The funding for this program was counted as a separate item in the 2008/2009 Amended Budget. However, as the students had already been included in the overall enrolment calculation, no additional funding would be received from the MOE, therefore funding for the students was incorrectly included in the Budget twice.	<p>Reviewed actual expenditures to date;</p> <p>Reviewed remaining budget to ensure not included elsewhere.</p>	<p>Maintain revenues reserved for a specific purpose on a specific line item of the budget and manager review to ensure properly reflected.</p> <p>Document all scheduled changes and ensure a manager reviews the final budget to ensure reflected correctly.</p>	
\$125,062	SWIS Program	An adjustment was made to reflect the cost associated with the SWIS "Settlement Workers In Schools" program. This was a new program initiated in August 2008 to engage 3 FTE's to provide school based services aimed at immigrant/refugee students and families who are permanent residents within their first year of settlement in Canada. The original budget included the full amount of the anticipated funding but not the associated cost of the program.	<p>Agreed revenue to SWIS program contract.</p> <p>Agreed revenues to corresponding expense line on the budget.</p>	<p>Review funding agreements to ensure budget reflects amounts related to the appropriate period only.</p> <p>Document all scheduled changes and ensure a manager reviews the final budget to ensure reflected correctly.</p>	

Amount		Item		Details		Work performed		Recommendation	
\$79,000	Adjustment to surplus	Surpluses are calculated as the difference between the allotted budget and actual expenses. Any surplus achieved is carried forward to the next year. The 2007/2008 surplus for one school was incorrectly reduced therefore the surplus was not carried forward to increase the school's budget for 2008/2009 although the school was entitled to the funds.		Reviewed the 2008 expenditure summary for the school to verify the expected surplus; Compared budget journal entries posted to email requests.		All entries posted to the budget to be reviewed and approved by a second manager.			
\$55,736	Distributed Learning	The Langley Education Center school receives MOE funding for students enrolled in a self paced learning environment in September, February and May. The February funding was recorded in the 2008/2009 Amended Budget but no additional expense allocation was recorded in the 2008/2009 Amended Budget.		Verified that the grant revenue has been included in MOE funding in the budget; Verified that the allocation has not been included on the DDM student allocation and therefore should have been included as an expense in the budget.		Ensure all items funded by MOE are either included in DDM or other cost account in the budget.			
\$370,750	Revenues transferred to schools	Certain revenues, including amounts collected for rental of the facilities, and school cafeteria are allocated to the schools. These re-allocations were not recorded in the 2008/2009 Amended Budget and therefore the revenue was counted both as other income and as school funding.		Recalculated the allocations; Scanned the budget for cafeteria, community use and classroom rentals to ensure not already reflected.		Match any restricted funding line items on the scorecard to the corresponding expense line to ensure that it has been allocated correctly.			

Amount	Item	Details	Work performed	Recommendation
Changes in estimates				
\$1,200,000	Salary costs	The cost of teacher salaries included in the budget is based on one average for all teachers. The total cost for all teachers is summarized and divided by the total number of teachers employed. Salary costs were underestimated in the 2008/2009 Amended Budget primarily because the average cost per teacher was higher than projected.	<p>Agreed actual salary costs to the general ledger;</p> <p>Agreed the actual number of teachers to a report from payroll;</p> <p>Recalculated the average cost;</p> <p>Recalculated the expected cost for the year.</p>	Compare the actual salaries up to December to budget to identify any variances prior to reporting to the MOE.
\$500,000	Benefits costs	The cost of benefits was underestimated in the 2008/2009 Amended Budget. Certain benefits were calculated but were not included in the budget GL. In addition, the number of teachers was higher than expected due to teachers on leave not included in the benefit calculation. The impact of these increases was reduced because the benefit rates did not change from the prior year and had been projected to increase in the budget.	<p>Agreed actual benefits costs to the general ledger;</p> <p>Recalculated the expected cost for the year.</p>	Compare the actual benefits up to December to budget to identify any variances prior to reporting to the MOE.

Amount		Item		Details		Work performed		Recommendation	
\$230,000	Investment revenue	The initial calculation of investment revenue was calculated using the previous year-end balance and rate of return. During the year, the cash was drawn down in the normal course and the interest rates decreased, resulting in a reduction in expected investment revenue.	Agreed cash and GIC balances to supporting bank statements; Recalculated the error.	Review calculation to ensure underlying assumptions are valid and reflect expected cash flows. Ensure cash forecast adequately estimates timing of use of cash.					
\$143,095	New revenue budget	During the course of the review several unbudgeted revenue items were identified. This amount represents potential costs associated with these items.	Discussed and corroborated with senior management.	Match any restricted funding line items in the budget to the corresponding expense line to ensure that it has been allocated correctly.					
\$73,938	SWIS Program	As noted above, an adjustment was made to reflect the cost related to the SWIS "Settlement Workers In Schools" program. The original budget included the full amount of the anticipated funding. The adjustment to budget reduces the expected revenues for the deferred portion.	Agreed revenue to SWIS program contract. Agreed revenues to corresponding expense line on the budget.	Review funding agreements to ensure budget reflects amounts related to the appropriate period only.					
\$40,000	Rentals	The budget was adjusted to reflect a revised estimate of rental income.	Recalculated revenue projection.	Review budget to ensure assumptions and projections accurate.					

Amount		Item		Details		Work performed		Recommendation	
(\$22,216)	Langley College	This adjustment is to reflect the fact that tuition fees for Langley College were higher than expenses.		Reviewed the GL noting revenues in excess of expenses; Corroborated with management.		Review documentation and assumptions used to project miscellaneous revenue. Ensure that there is a corresponding expense line item included for all targeted funding.			
(\$109,011)	Miscellaneous Revenue	Miscellaneous revenues were adjusted on the budget to reflect actual funds received that were different from the original estimate. Note: funding was received in the amount of \$154,725 for SSEAC "Support Staff Education and Adjustment Committee" to cover the cost of maintenance staff salaries. From discussions with management it was noted that there was no corresponding expense line item on the budget for this amount. This has not yet been adjusted in the budget.		Reviewed external documentation confirming grants. Inquired with management whether the budgeted revenue changes were recorded accurately with a corresponding expense. Recalculated revenue recognized in 2008/2009.		Review documentation and assumptions used to project miscellaneous revenue. Ensure that there is a corresponding expense line item included for all targeted funding.			

Amount		Item	Details	Work performed	Recommendation
(\$112,751)	MOE Operating Grants	Funding is received from the MOE in February and May for students who enrolled in the distributed learning program subsequent to the September deadline for which the initial grant is based. The additional funding and corresponding expense occurred after the Amended Budget was submitted and was not included in the 2008/2009 Amended Budget.	Confirmed student enrolment subsequent to the September deadline. Recalculated expected grant revenue.	Ensure the budget reflects anticipated funding provided by the Ministry. Have management review line items to ensure that estimates for post September enrolment for distributed learning occurs.	
(\$326,037)	Other MOE Grants	Other MOE Grants consist of amounts received for literacy innovation, salary lifts, leadership, and AVID, among others. The budget was adjusted to include revenues received during the year which was not originally budgeted for. There was no corresponding expense budgeted for the Literacy Innovation Grant of \$108,981. Management is following up to determine if any revenue should be deferred at year end. This was not adjusted in the projected final 2008/2009 Amended Budget. \$38,000 has been included as revenue for the Leadership Support Program which relates to 2009/2010 and should have been deferred at year end.	Agreed amounts to external funding letters; Compared amounts to EFT bank deposits; Reviewed corresponding expenditure line items.	Update budget for anticipated funding regularly. Match any restricted funding line items on the scorecard to the corresponding expense line to ensure that it has been allocated correctly. Have management review all budget changes to ensure that they are considered in the correct period.	

Amount	Item	Details	Work performed	Recommendation
Actions taken by Management to mitigate impacts of errors				
(\$615,948)	Carry Forward recovered	As noted above, carry forwards in excess of funds available were made available for District programs. Based on reviews of individual budgets not all of the amounts were spent. Where there were no further commitments, the budgets were adjusted to prevent further expenses from being incurred.	Compared unused budget to GL; Compared recoveries to budget GL adjustments.	Summarize carry forward amounts included in the budget and agree to ending balance for prior year per audited financial statements.
(\$500,000)	Schools unallocated	Unallocated DDM represents funding that has not been allocated to schools in order to cover unanticipated costs. Where there were no further commitments, the budgets were adjusted to prevent further expense from being incurred.	Agreed the amount to the DDM schedule; Corroborated the explanation.	Assign responsibility over unallocated funds so that the budget is monitored and used as needed.

Amount	Item	Details	Work performed	Recommendation
(\$217,553)	Central Services review	During the 2009/2010 budget process, the finance department compared each budget item to the GL and the binder, noting approximately 14 discrepancies. The projected budget was adjusted to arrive at the most reasonable amount.	Compared budget binder to GL and scorecard; Corroborated explanations.	Complete a full reconciliation of all budget binder items to GL. Enhance IT system to generate complete budget report.
Total:				
\$4,787,942				

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is to help
our clients and
our people
excel.

Our Client Service Standards

1. Determine, on each engagement, who our clients are and directly ascertain their expectations for our performance.
2. Analyze our clients' needs and professional service requirements.
3. Develop client service objectives that will enable us to fulfill our professional responsibilities, satisfy our clients' needs, and exceed their expectations. Prepare an appropriate client service plan to achieve these client service objectives.
4. Execute the client service plan in a manner that ensures commitments are met, potential problems anticipated, and surprises avoided.
5. Establish effective and creative communication, both internal and external, to enhance client perceptions of value and quality of our service.
6. Provide management with insights on the condition of their business and meaningful suggestions for improvement.
7. Continually broaden and strengthen our relationships with clients to facilitate effective communication, client confidence and trust.
8. Ensure that any professional, technical, or client service problem is resolved promptly with timely consultation in an environment of mutual respect.
9. Obtain from the client, either formally or informally, a regular assessment of our performance.
10. Receive fees that reflect the value of services provided and responsibilities assumed and are considered fair and reasonable by our clients.

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